THE ARIZONA REPUBLIC

As reprinted from 10/27/2007 (unedited)

Tax-hike proposal would hurt U.S.

Every week it seems Congress is considering a new tax increase. Whether it's a tax increase on income, investments, or gasoline, the new Congress is behaving much like the tax and spend Congress of old.

Now Congress wants to raise taxes over 130% on private equity and other types of investment partnerships – enterprises that collectively are responsible for driving a significant amount of growth in the American economy and have become a part of middle class America's retirement. As usual this massive tax increase is camouflaged as "closing a tax loophole," but nothing could be further from the truth.

Private equity funds and investment partnerships specialize in pooling capital, identifying undervalued assets, purchasing them and working to increase their value. They buy struggling companies and turn them around, provide financing for start-ups, finance large-scale commercial projects, new manufacturing plants, modernize equipment, and fund groundbreaking research. These funds take risks by investing in assets that can either increase or decrease in value. If they realize a profit, that profit is taxed as a capital gain at the same rate as anyone who takes an entrepreneurial risk and then sells their company for a profit.

In short, these funds provide the financial resources to create new jobs for Americans; they are a fuel for America's economic engine and they have been very successful, creating thousands of jobs and returning profits back to the investors who risked their hard earned dollars. But this success has made them a target of a spend-happy Congress which wants to more than double taxes by reclassifying the income from capital gains to ordinary income.

To raise these taxes by 130% would discourage American citizens from investing their money in these large scale capital pools. A tax increase would weaken the availability of capital in the marketplace, which supports long-term economic growth through.

Who takes the hit for this tax increase? Private equity's principal investors are pension funds, university endowments and charitable foundations. Right here in Arizona, our retirement systems, manage the retirements of thousands of middle class employees, including teachers and police officers, have more than $250 million committed to investments in private equity with plans to grow in the future. That means literally millions of dollars generated by private equity funds are shoring up the retirement security of hard working Americans working in Arizona.

Congress is ignoring the reality of today's global economy. Capital is highly liquid and those with money will simply choose to invest where it is taxed the least. Some investors will simply ship those dollars overseas to nations with far lower tax rates. The result will be less dollars circulating in our economy. If Congress succeeds in this latest tax scheme, it will impact investment behavior, and directly impact large institutional investors such as our retirement systems. Already overburdened by high contribution rates, teachers, police officers, and other middle class employees will see even higher costs and lower returns.

As the economy slows and a possible recession looms, rather than pull the rug out from under America's fuel for job creation, jeopardize the retirement security of middle class families, and the economic vitality of our state and nation, Congress should look to tighten its own belt.

Dean Martin is the Arizona State Treasurer. A statewide constitutional officer, third in line of succession to the Governor, Treasurer Martin is the state's Chief Financial Officer, responsible for the prudent custody and management of taxpayer monies.